

The Lewin Report, Medicaid Payments, and Massachusetts Health Care System

Finance Working Group Report to
the Health Care Task Force

September 17, 2001

Finance Group Report

- Context is Important
- Questions and Comments about the Lewin Report
- State Policy Goals and Short Term Intervention
- Systemic Problems and Policy Options for the Long Term

Context is Important

- While state Medicaid payment-to-cost ratio among the lowest in country
- Medicaid per-enrollee payments among the highest
- Medicaid enrollment among the highest
- And overall health care costs are among the highest

Questions and Comments about the Lewin Report

- What is “Medicaid Cost”?
 - Should it be adjusted for case-mix
 - Should Medicaid pay all costs incurred
- Are Medicare payment systems appropriate for Medicaid programs?
 - How would Medicare type system allocate spending
- What effect would implementing the Lewin recommendations have on individual hospital financial conditions?

Questions about the Lewin Report

- Should Lewin “efficiency” estimates be used to influence individual hospital Medicaid payments?
- How does Medicaid spending for hospital care per resident of the state compare to other state spending amounts [taxpayer burden]?

Support For The Lewin Report Findings

- Overall, Medicaid payments to hospitals are too low, especially in light of the low margins, if any, paid by other payers in Massachusetts.
- The inflation factor used has failed to recognize real increases in cost in recent years and should be changed.

State Policy Goals:

- State Policy Goals:
 - Fair Payment for Medicaid Services
 - Access Preservation for Medicaid Enrollees
 - System Stability for all Residents (those services and hospitals necessary for preserving the health of the public)

What Role Should Medicaid Play To Accomplish---

Strategy For Short-Term Intervention

- Vehicles for additional funding:
 - Medicaid rate increases “across the board”
 - Medicaid rate increases focused on certain hospitals and/or certain services
 - Uncompensated Care Pool Relief
 - Grants or Loans to Distressed Hospitals

Why Medicaid Should Be Part of Broader State Health Policy

- Medicaid Program Goals and broader Policy Goals overlap
- Medicaid covers 15% of population
- Federal government shares in Medicaid expenditures

Concerns About Using Medicaid For Broader State Health Policy

- Medicaid is not a grant program
- Across-the-board Medicaid increases may limit amounts that can be spent on hospitals needed for the general population but not Medicaid
- State may want to support some hospitals with low Medicaid volume

Recommendation For Short-Term Intervention

Suggestion:

- Multi-year plan that includes some yearly across-the-board increases to make up for past inflation underpayments combined with limited extra [Medicaid] payments to select institutions to support system stability and access preservation.

Broader System Problems

- Massachusetts spends more per capita on health care than most other states, but most health care institutions are in financial difficulty.
- Larger than Medicaid rate questions are questions about structure and culture of our health care system.

Broader System Problems

- We utilize hospital outpatient departments more than the national average.
- We use teaching hospitals more than the national average.
- We have more physicians per capita, and particularly more specialists, than most other areas.

Broader System Problems

- Is fundamental change in our system required to keep it from becoming unaffordable?
- Will continued premium and state financing increases lead businesses to locate elsewhere?

Policy Options for the Long-Term

- Pay more for the current system through Medicaid and private insurance
- Change the way we provide and receive care to reduce aggregate costs and increase system efficiency
- Both will be needed to preserve achievements in access and quality

Policy Options for the Long-Term

- Redistributing care to lower-cost, clinically appropriate settings
 - Consumer Incentives
 - State Financial Incentives for Lower-Cost Providers
 - Payment Policy and Program Design Changes
 - Increased Regulation of Service Mix or Payment Rates

Policy Options for the Long-Term

- Establish an Independent Commission to monitor and report financial conditions and to recommend reasonable inflation factors
- State identification of needed hospitals
- Increase state oversight of and intervention in facility operations, technical assistance or financial assistance for needed vulnerable hospitals

RFA Inflation vs. HCFA Market Basket vs. CPI

